

For Year Ended June 30, 2012

Connecticut Lottery Corporation

2012 ANNUAL REPORT

Fiscal Year Ended June 30, 2012



CTLOTTERY.ORG

CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

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MISSION STATEMENT

The mission of the Connecticut Lottery Corporation is to raise revenue in an entrepreneurial manner for the State of Connecticut, consistent with the highest standards of good public policy and social responsibility, by offering products to our players that are fun and entertaining and by ensuring the public's trust through integrity and honesty.

VISION STATEMENT

The Connecticut Lottery Corporation will be recognized as a leader in the lottery industry, committed to helping the State of Connecticut achieve its revenue raising objectives. Furthermore, it is the Connecticut Lottery Corporation's charge to address problem and underage gambling by taking proactive measures to implement and support responsible gaming initiatives.



INTRODUCTORY SECTION



May 10, 2013

The Honorable Dannel P. Malloy, Governor of Connecticut, The Connecticut Lottery Corporation Board of Directors, and The Citizens of Connecticut

We are pleased to transmit to you the Annual Report of the Connecticut Lottery Corporation (CLC or Lottery) for the fiscal year ended June 30, 2012. Responsibility for the accuracy of the financial data, as well as the completeness and fairness of the presentation, including all disclosures, rests with management of the CLC. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the CLC. We have included all disclosures necessary to enable the reader to gain an understanding of the CLC's financial activities.

We present this report in four sections: the introductory section, the financial section, the statistical section and the compliance section. The introductory section includes this transmittal letter, a list of principal officials, an organizational chart, our current lottery games, and significant events of the past fiscal year. The financial section begins with the report of independent auditors, followed by management's discussion and analysis of fiscal 2012, the comparative financial statements of the CLC, the related notes to the financial statements and supplementary schedules. The statistical section, which is unaudited, provides additional information concerning the Lottery's sales and expenses. The compliance section contains the independent auditors report on internal control over financial reporting and on compliance with Connecticut General Statutes.

Accounting principles generally accepted in the United States (GAAP) for governmental enterprise funds require that we provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Connecticut Lottery Corporation's MD&A can be found immediately following the report of the independent auditors in the financial section.

PROFILE OF THE CONNECTICUT LOTTERY CORPORATION

Historical Overview of the Lottery Industry and Connecticut's Lottery

In 1971, the Connecticut Legislature created the Commission on Special Revenue to operate the lottery and regulate pari-mutuel wagering. On February 15, 1972, tickets for the state's first lottery game featuring weekly drawings went on sale. The \$.50 tickets were available at approximately 3,000 retail establishments throughout the state. Top prizes of \$5,000 were awarded to those who matched all five digits in the exact order. The first drawing was held on Thursday,

February 24, 1972 at Bushnell Memorial Auditorium (now the Bushnell Center for the Performing Arts) in Hartford. Twenty-one people claimed top prizes and were then entered in the "Super 75" drawing to be held one week later. This second drawing featured a \$75,000 grand prize, the highest weekly drawing in the United States at that time.

Other noteworthy developments in the Lottery's history include:

- The first instant game began on September 9, 1975.
- The first daily game was introduced on March 16, 1977, with "Daily Numbers" drawings held Monday through Saturday.
- The first "million-dollar" game, Lotto, was introduced on November 7, 1983, featuring a 6-of-36 matrix, weekly drawings and a guaranteed \$1.0 million jackpot prize.
- The first multi-state game was introduced in Connecticut with the Lottery's membership in the Multi-State Lottery Association (MUSL) and the Connecticut launch of the Powerball game on November 29, 1995.
- The first "For Life" draw game, Lucky-4-Life, was introduced on March 29, 2009, featuring drawings every Monday and Thursday, and a top prize of up to \$2,000 per week for life.
- The first cross licensing of a multi-jurisdictional jackpot game occurred in 2010 with the Connecticut launch of the Mega Millions game on January 31, 2010.
- The first limited ticket draw game (Super Draw) was introduced on October 1, 2010 for a singular drawing held on January 1, 2011.
- The first regional Lucky for Life game was introduced on March 11, 2012 and includes each of the six New England states and offers a grand prize of \$1,000 a day, for life.

Public Act 96-212, the result of a privatization initiative, created the Connecticut Lottery Corporation as a quasi-public corporation for the purpose of generating revenues for the state's General Fund. Effective July 1, 1996, the CLC assumed operation of the Connecticut Lottery from the Division of Special Revenue, which had operated the Lottery since its inception in 1972.

A thirteen-member board of directors governs the CLC, eleven of whom are appointed by the Governor and legislative leadership and two, the State Treasurer and the Secretary of the Office of Policy and Management, serve in an ex-officio capacity. For financial reporting purposes, the CLC is considered a component unit of the State of Connecticut.

The passage of Public Act 96-212 marked the first time a lottery operated by a state agency had been transferred to a quasi-public corporation to be operated as an enterprise fund. With more than 40 years of continuous operation, Connecticut's Lottery is one of the oldest lotteries in the United States. From its inception to June 30, 2012, the Lottery has generated total sales of approximately \$22.5 billion and has paid approximately \$7.6 billion to the state's General Fund. The General Fund is used to fund a wide variety of state services that benefit Connecticut residents, including health and hospitals, education, road maintenance and public safety.

HIGHLIGHTS OF THE PAST YEAR

In fiscal year 2012, the Lottery achieved record sales and returned a record sum to the General Fund. Sales for fiscal 2012 totaled almost \$1.1 billion, an increase of \$65.1 million from fiscal 2011 and payments to the state's General Fund totaled \$310.0 million, an increase of \$20.7 million over the prior year. (For a more complete overview of the financial highlights of fiscal 2012, including comparisons with the results of the prior fiscal year, please read Management's Discussion and Analysis included in the financial section of this report.) The total sales increase resulted primarily from higher sales of \$42.7 million in Instant game sales, and higher combined sales of the multi-state games of Powerball, Mega Millions and Lucky for Life of \$24.5 million. Also contributing to the record-setting sales and transfers to the State was the extra day in fiscal 2012 for Leap Year and an increase in the number of retailers.

A number of other significant events occurred during the year ended June 30, 2012 that may not be apparent from the financial results noted above. Some of these are highlighted below:

- In January, 2012, a change to the Powerball matrix increased the chances of winning and increased the starting jackpot. The price point increased to \$2.00 in January.
- In March 2012, the first ever New England lottery game, Lucky for Life, launched.
- The CLC continued its Super Draw game. Offered twice during the year, these raffle-style games provided players a chance to win a top prize of \$1 million.
- As continued evidence of the CLC's commitment to responsible gaming, the CLC achieved Level 2 membership in The World Lottery Association (WLA) and is working toward achieving Level 3 responsible gaming accreditation. Currently, only two lotteries in North America have achieved Level 3.
- The CLC maintained its support and funding for the CT Partnership for Responsible Gambling, the CT Committee for Gambling Awareness and the CT Women's Problem Gambling Project.
- The CLC contracted with a Supplier Diversity Consultant to help build a more robust and successful Supplier Diversity Program.
- The CLC has voluntarily participated in the State of Connecticut's Supplier Diversity Program and has consistently exceeded the goals set by the Department of Administrative Services (DAS). The CLC achieved 326% of goal amount as set by DAS for Minority Business Enterprise (MBE) spending and a total of 226% for total Small Business Enterprise (SBE) and MBE spending combined. The CLC is committed to bolstering its supplier diversity efforts further. The CLC officially joined the Greater New England Minority Supplier Development Council (GNEMSDC) and participated in its Business Exposition. In addition, there has been increased outreach with potential minority suppliers.

FUTURE PROJECTS

In fiscal year 2013, the Connecticut Lottery Corporation will continue with initiatives to promote growth and expansion and enhance transfers to the General Fund.

The Lottery will continue to research and develop a variety of new products and services, implement appropriate
promotions and seek to engage in business partnerships that will ensure the Lottery's mission to raise revenue for
the state in a socially responsible manner.

- The CLC will continue to strengthen its commitment to responsible gaming by involving more staff at different levels and across departments to bring new energy and focus to this core area. There are now eight different responsible gaming committees within the CLC that include: WLA accreditation, the Department of Consumer Protection's Gambling Awareness Committee, the CT Partnership for Responsible Gambling, the CT Women's Problem Gambling Project, Retailer Responsible Play initiatives, Public Service Announcements and Marketing initiatives, and Executive Development and Outreach.
- The CLC is currently working towards level three accreditation by the WLA which requires a lengthy self-assessment, analysis and presentation to the WLA for their consideration.

FINANCIAL OPERATIONS

ENTERPRISE OPERATION: The CLC operates as an enterprise activity; sales of lottery tickets to the general public sustain the prize and retailer commission structure, all lottery-related support operations and contributions to the Connecticut General Fund. The accrual basis of accounting, in accordance with generally accepted accounting principles, is used. No general government functions or fiduciary operations are managed by the CLC.

INTERNAL CONTROL ENVIRONMENT: Management of the CLC is responsible for establishing and maintaining an internal control structure designed to assure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows for compilation of accurate and timely information. The structure is designed to provide reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the CLC has segregated the following functions: personnel and payroll; purchasing and accounts payable; and general ledger and accounts receivable accounting. Data input and processing are separate from system programming; management provides approval and oversight.

The CLC ensures that its operations remain secure with a commitment to the following protocol:

- Specialized security staff;
- Limited access to facilities;
- Background checks on retailers, CLC employees, and in-house contractors;
- Lottery tickets printed with special inks, dyes, and security codes;
- Detailed written procedures for all game drawings;
- Access control to our information systems.

DEBT ADMINISTRATION: The CLC's long-term liabilities are essentially limited to payments owed to prizewinners in the form of weekly, monthly and annual payments. The payments are fully funded by annuities purchased from life insurance companies with at least \$50 million in policyholder surplus. These insurance companies must be licensed to do business in Connecticut and must also have credit ratings at the date of award equal to or better than the following levels from at least one of the three credit rating services listed below:

Credit Rating Service	Minimum Acceptable
Moody's Service Credit Opinion	"Aa2"
Standard and Poors Insurance Rating Service Digest	"AA"
A. M. Best	"A and A-"

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The CLC collects cash from sales of lottery games from approximately 2,750 retailers on a weekly basis. Funds are electronically swept from the retailers' designated bank accounts, and weekly transfers of estimated net income (sales revenue less prizes, commissions, and expenses) are made to the Connecticut General Fund.

The Treasurer of the State of Connecticut invests excess cash in a short-term investment fund. This fund is an investment pool of high quality, short-term money market instruments for state and local governments. The CLC invests its excess cash in short-term investments in this fund.

RISK MANAGEMENT: The CLC is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters, for which it carries adequate insurance through individual policies.

INDEPENDENT AUDIT: Connecticut statutes require an annual audit of the CLC by independent auditors. The audits of the CLC's financial statements for fiscal years 2012 and 2011 have been completed in conformity with generally accepted auditing standards. The unqualified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

ECONOMIC CONDITIONS

The economic environment throughout fiscal 2012 continued to suffer due to the slow recovery from the effects of the global recession that began in fiscal 2008. The continuing issues of high unemployment, poor growth in the housing sector and significant credit risk with mortgage holdings of financial institutions have slowed the growth in the economy, both for Connecticut and the nation.

Consumer confidence rose slightly during fiscal year 2012, and then started a downward trend that continued for the balance of the fiscal period. The forecast is for very gradual economic improvement in fiscal year 2013. The Federal Reserve continues to maintain interest rates at historic lows and debate continues as to measures needed to prevent a further slowdown in the national economy. While the Consumer Price Index increased by 1.6% between June 2011 and June 2012, concerns about inflation appear to be secondary to the efforts by the Federal Reserve to stimulate the economy. The Federal Reserve has pledged to keep interest rates low until economic recovery is more certain and credit conditions have eased. However, when all factors are considered, the majority of economic forecasts conclude that significant time remains before the economy is fully recovered and unemployment levels are significantly reduced.

Connecticut continues to share similar economic pressures found in the national and global economies. Total employment in Connecticut increased 1.1% in fiscal 2012 compared to a 2.2% increase recorded at the national level for the same period. Connecticut's unemployment rate improved from 9.1% at the end of fiscal 2011 to 8.1% at the end of 2012, while the national unemployment rate similarly declined from 9.2% in June 2011 to 8.2% in June 2012. Forecasts indicate employment gains will be slow for fiscal 2013 and this contributes to expectations of slow economic growth in the next year.

Although the economy has been slow to recover from the downturn in 2008, the lottery industry and the Connecticut Lottery Corporation experienced growth in sales and profits during fiscal 2012. While it remains difficult to demonstrate a direct relationship between general economic indicators and sales trends within the lottery industry, it is apparent that improved consumer confidence and lower unemployment rates would improve the growth rate of the economy and

increase the prospects for further gains in sales and profits. Our players will continue to evaluate their own current financial condition and continue to adjust their spending habits. Management will continue to monitor economic developments and will accordingly re-evaluate its business plans and products. New game concepts and revisions to existing games are examined on a regular basis to increase sales revenues and returns to the General Fund. Operating systems and processes are constantly reviewed to control expenses and maximize the payments to the state's General Fund.

We look forward to the coming year and continuing to find ways to be as innovative and efficient as possible in order to maximize the transfers to the General Fund.

Respectfully Submitted,

Anne M. Noble

President & CEO



Dannel P. Malloy, Governor Nancy Wyman, Lieutenant Governor

Denise Merrill Secretary of the State Denise L. Nappier State Treasurer Kevin Lembo Comptroller George Jepsen Attorney General



CONNECTICUT LOTTERY CORPORATION Board of Directors, as of June 30, 2012

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Denise L. Nappier

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Thomas J. Trella Director, Lottery Games
Philip S. Kopel Director, Marketing Research

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Barry L. Sheftel Lottery Financial Manager

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Dianna Kulmacz Director of Operations

LEGAL

Lana Glovach General Counsel

James F. McCormack Counsel

HUMAN RESOURCES

Jane M. Rooney Interim Director, Human Resources
Jennifer Hunter Interim Human Resource Specialist

SECURITY

Alfred W. DuPuis, Jr. Director, Security

SCRATCH GAMES



Fiscal Year 2012 Statistics:

\$138.3 million in General Fund payments

42 scratch games launched **60.4%** of total net sales

44.6% of General Fund payments

Scratch games are easy to play and provide instant entertainment for players. By removing the thin scratch-off coating on the face of a cardboard scratch ticket, players can visually discover in an instant if they've won and the amount of the prize.

There's a play style for everyone – from the crossword action of Cashword to the excitement of Bingo or a casino style game like High Roller. Depending upon the game, players may need to match numbers, symbols or dollar amounts, spell words, beat the dealer's card, or reveal a Bonus Prize. Scratch ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$100,000 a year for life, with a minimum guarantee of \$2,000,000! With such a variety of games, it's easy to see why scratch games are the play of choice for many consumers.

DAILY GAMES

Fiscal Year 2012 Statistics:

\$98.7 million in General Fund payments



Play3 Day: **4.4%** of total net sales **6.8%** of General Fund payments



Play4 Day: **3.4**% of total net sales **6.3**% of General Fund payments



Play3 Night: **6.8**% of total net sales **10.7**% of General Fund payments



Play4 Night: **5.7%** of total net sales **8.1%** of General Fund payments

Four times per day, players have an opportunity to win with the Lottery's "Daily Games." Four games in all – Play3 Day, Play4 Day, Play3 Night and Play4 Night – help us make sure that we've got your numbers!

To win, players select three or four digits from 1 through 9, choose a wager style, and pick a wager between \$.50 and \$5 per play. Prize amounts are based on the wager style and amount, and range from a modest \$25 up to an exciting \$25,000 per ticket.

CASH5



Fiscal Year 2012 Statistics:

\$12.5 million in General Fund payments

3.1% of total net sales

4.0% of General Fund payments

Cash5 is Connecticut's daily game with a chance to win up to \$100,000. For \$1, players get one set of five numbers. By adding the "Kicker" feature for just \$.50, players increase their chance to win more often, and win more prize levels. Prizes can be won seven different ways and range from \$2 up to \$100,000 per ticket.

With more than 1,000,000 winning tickets sold in this game each year, Cash5 is a proven favorite with Connecticut's players.

Advance Action play of up to 26 draws makes sure that players can stay in the game.

CLASSIC LOTTO



Fiscal Year 2012 Statistics:

\$8.0 million in General Fund payments

2.5% of total net sales

2.6% of General Fund payments

Twice each week, players can win up to one million dollars (or more) with Classic Lotto. Drawn on Tuesday and Friday nights, Lotto has been a part of Connecticut's play of choice since November 1983. Tickets cost \$1 per play.

Lotto began with a 6-of-36 matrix, and today sports a 6-of-44 mix. Although the game has gone through several enhancements, it's still the game that is most associated with the Lottery. Jackpot winners may choose to receive their prize money in either twenty-one equal annual installments or in a cash lump sum.

Advance Action play of up to 26 draws makes sure that players are always in the game.

Fiscal Year 2012 Statistics:

\$31.1 million in General Fund payments



6.9% of total net sales10.0% of General Fund payments

As Powerball prepared to celebrate its 20th year in 2012, the game was redesigned to bring more value to its players. On January 15, 2012, major changes were made to the game to produce bigger jackpots, better odds of winning and more millionaires. The cost of a ticket increased to \$2.

Key changes to the Powerball game included:

- Starting jackpots doubled to \$40 million (from \$20 million).
- Better overall odds for more winners, 1 in 31.8 (reduced from 1 in 36).
- Better odds of winning the jackpot prize 1 in 175,223,510 (reduced from 1 in approx. 195 million).
- Matrix 5 of 59 and 1 in 35 (from 5 of 59 and 1 in 39).
- Match 5 Prize (5+0) prize increased to \$1 million (from \$200,000).
- Match 5 Prize with Power Play increased to \$2 million (from \$1 million).
- "Powerball only" prize increased to \$4 (from \$3).
- Power Play prizes became set prizes (no longer dependent upon a multiplier).

Powerball drawings are still held twice weekly on Wednesday and Saturday nights.

MEGA MILLIONS



Fiscal Year 2012 Statistics:

\$15.6 million in General Fund payments

3.8% of total net sales5.0% of General Fund payments

On January 31, 2010, the CT Lottery, along with 22 other lottery jurisdictions in the United States, joined the Mega Millions game as an historic cross-selling agreement between the industry's two largest drawing games, Mega Millions and Powerball, went into effect.

Mega Millions with Megaplier broke all previous records for the largest jackpot ever won in North American history on March 30, 2012 when a \$656 million prize was split between three winning tickets held by owners in Kansas, Illinois and Maryland. Jackpots in the game start at \$12 million and grow until they are won, making this game attractive to players who enjoy the chance to play big!

A basic Mega Millions ticket costs \$1 per play. Players may pick six numbers from two separate pools of numbers – 5 of 56 white balls and 1 of 46 yellow balls selected during each drawing of the game. The jackpot is won by matching all 6 numbers drawn. Besides the jackpot, there are eight other ways to win prizes in the game.

Purchasers can choose their own numbers, or play the easy way by asking for a "Quick Pick." By choosing to activate the Megaplier feature for an additional \$1 per play, players can increase the value of any prize won by as much as 2, 3 or 4 times, depending on which number is selected as the Megaplier in that drawing. With Megaplier, the "Match 5" prize is always guaranteed to be \$1,000,000 in cash. Drawings are held twice weekly on Tuesday and Friday nights.



Fiscal Year 2012 Statistics:

\$4.5 million in General Fund payments

2.5% of total net sales

1.5% of General Fund payments

Lucky-4-Life began on March 29, 2009, a hybrid draw game combining features from both the instant and numbers games that Lottery players had found appealing. The game's top prize featured \$2,000 a week paid EVERY week, for the rest of a winner's natural life. The "for life" prize payout format was the centerpiece of the game's attraction. For each \$2 play, four numbers between 1 and 39 and one "Lucky Ball" number between 1 and 39 must be matched to win the top prize. Drawings were twice weekly on Monday and Thursday nights.



On March 8, 2012, the CT Lottery's "Lucky-4-Life" game came to an end to make way for the first-ever New England regional lottery draw game, "Lucky for Life," which began on March 11, 2012.

Highlights of the new Lucky for Life game include:

- Bigger Top Prize up to \$7,000 a week for life! (increased from \$2,000 a week).
- Increased 20 year minimum payout is \$7,280,000 (increased from \$2,080,000).
- New 2nd Level Prize Match 5 (5+0) is \$25,000 (increased from \$10,000 for Match 4 (4 + 0).
- More Prize Levels 10 ways to win (up from 8).
- Better overall odds for more winners, 1 in 6.6 (reduced from 1 in 14.4).
- Matrix 5 of 40 and 1 in 21 (from 4 of 39 and 1 in 39).
- Tickets sold in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine.
- Lucky for Life drawings are held twice weekly on Monday and Thursday nights.

CONNECTICUT SUPER DRAW



Fiscal Year 2012 Statistics:

\$1.3 million in General Fund payments

0.5% of total net sales

0.4% of General Fund payments

On October 1, 2010, Connecticut launched a brand new style of draw game – Super Draw. Unlike other CT Lottery draw games, Super Draw sales are limited to a specific period of time, based on a limited pool of tickets sold and offers a guaranteed cash top prize. With a maximum of 275,000 tickets and a guaranteed \$1,000,000 cash top prize, Super Draw players have "The Best Chance to Become a CT Lottery Millionaire!"

In fiscal year 2012, there were two Super Draw game editions launched: "New Year's \$1,000,000 Super Draw" and "4th of July \$1,000,000 Super Draw." The tickets, which contained one unique six-digit number, were sold in sequential order from 100001 to 375000. In total, 1,311 in cash prizes worth \$1,375,000 were awarded – one \$1,000,000 top prize – ten \$20,000 prizes; 50 prizes of \$1,000 and 1,250 prizes of \$100.

CT Lottery Officially Kicks-Off New "Lucky for Life" Regional Draw Game!



March 15, 2012 was a day of celebration at the CT Lottery headquarters when all six New England state lotteries gathered for the first drawing of the new "Lucky for Life" regional draw game. The topic on the tip of everyone's tongue at the inaugural event was the game's top

prize—\$1,000 a day, every day, for LIFE! The first "Lucky" drawing was held that evening at 10:35pm and broadcast live from Fox CT studios in Hartford.

A total of 166,905 winning tickets were purchased for the first Lucky for Life drawing. From that number, Connecticut sold 51,502 winning tickets with prizes ranging from \$2 up to \$2,000.

By the end of fiscal 2012, Lucky for Life, now termed the "Luckiest draw game in Connecticut," had more than 857,898 CT wins, including TWO Lucky for Life Top Prize winning tickets, each worth \$1,000 a day, every day for life. Additionally, 11 second-level prize tickets were sold, each worth \$25,000!

Lucky for Life was indeed a WINNER!





CONNECTICUT LOTTERY CORPORATION Look Who's Winning!

"Set For Life" Has Whole New Meaning for Branford Newlywed

Merely a month after marrying his high school sweetheart, Brian Cahill, 27, of Branford became a CT Lottery millionaire. Cahill won the top prize playing the instant game, "Set For Life 2nd Edition," and will receive \$100,000 a year for life, with a guaranteed minimum payout of \$2,000,000. "I've never actually met someone who won the lottery," Cahill told Lottery officials when he came in to claim his first check of \$68,503 (prize value after taxes). "It's pretty cool – anything is possible."

Selling Retailer: 7-Eleven, Boston Post Road, Milford





CT Lottery History is Made on November 2! \$254.2 Million Powerball Jackpot is State's Largest Ever!

After more than three weeks of anticipation, a \$254.2 million Powerball jackpot that was hit on November 2, 2011, was claimed in Connecticut by The Putnam Avenue Family Trust. The winning numbers were 12 - 14 - 34 - 39 - 46 Powerball – 36 and Power Play – 4. Not only was the jackpot the 13th largest in Powerball history, but also the largest jackpot prize ever won in the state!

Selling Retailer: Shippan Point Getty, Magee Avenue, Stamford

Congratulations to Second Classic Lotto Millionaire of the Year!

In 2011, Fabian Mazuera of Ridgefield picked six "Classic Lotto" numbers and began playing them regularly. Each week, Mazuera watched the Lotto jackpot climb — eventually to \$9,700,000 — and remained hopeful that he might win. "I saw my first two numbers were a match, and then I saw the rest of my numbers…and nearly fell out of my chair!" said Mazuera who selected the jackpot's cash lump-sum prize of \$6,523,790 (before taxes). "I just want to enjoy life…to retire, help out my mother and my family. But first," Mazuera quipped, "we're going to Disney."

Selling Retailer: Ridgefield Amoco, Danbury Road, Ridgefield



CONNECTICUT LOTTERY CORPORATION Look Who's Winning!

First Lottery Millionaire of 2012 Claims "New Year's Super Draw" Top Prize



It was a "super day" for Ashford resident, Marilyn Rossi, who drives a concrete mixer for a local trucking company. She called her boss to request time off from work so she and her family could come to CT Lottery headquarters to claim the \$1,000,000 top prize she won in the New Year's Day "Super Draw" drawing, held on January 1. "When the store clerk told me I won a \$1,000,000, I couldn't believe it. I told her she must have made a mistake!" Rossi said with a laugh. Rossi's plans included buying a new vehicle, and to put money away for her future retirement and her daughter's college education. "All I have to say is 'Thank you, CT Lottery!" Rossi said.

Selling Retailer: Big Y, West Stafford Road, Stafford Springs

Uncasville Man Wins New "Lucky for Life" Game's \$25,000 Prize

On March 29, Uncasville bartender, Daryl Tibbetts became one of CT's newest "Lucky for Life" winners to claim the regional game's \$25,000 prize. The winning Lucky for Life numbers on that date were 5 - 8 - 11 - 34 - 38. Tibbetts' "Quick Pick" matched the first five winning numbers drawn, but missed matching the Lucky Ball number, 8. "This is incredible. I'm going to pay off some bills, my motorcycle, and my student loans," Tibbetts said, while grinning from ear to ear.

Selling Retailer: Cumberland Farms, 412 Laurel Hill Road, Norwich





Home Health Aide Gets the "Royal" Treatment, Wins \$25,000

Germaine Cole of East Hartford was overcome with emotion when she learned she was a \$25,000 "Royal Riches" prize winner. "I lost all control of my senses. I'm used to winning \$200, maybe \$400, but when I saw how much I won, I literally dropped straight to the floor," Cole said chuckling. When Cole came to Lottery headquarters to claim her prize check, she was still giddy with excitement. "This is a great retirement present! I'm retiring this May. This money is going right into the bank!" Cole said.

Selling Retailer: Krauszer's, Main Street, East Hartford

CONNECTICUT LOTTERY CORPORATION Raising Revenue with Social Responsibility

The Connecticut Lottery Corporation, while fully embracing its mission to raise revenue for the State of Connecticut, equally recognizes the obligation to operate with responsibility and integrity. The CT Lottery also diligently makes efforts to promote responsible gaming and raise awareness about underage gambling.

The Lottery has been cited by both national experts and by the National Council on Problem Gambling for its efforts to educate and inform the public, its retailers and employees about problem gaming and underage gambling.

During fiscal 2012, the CT Lottery supported and financed social responsibility efforts in collaboration through the partnership, a coalition between the Connecticut Lottery Corporation, the Department of Mental Health and Addiction Services and the CT Council on Problem Gambling.

The Lottery has also supported multiple responsible play initiatives including:

- A participant and funding sponsor of the CT Council on Problem Gambling Annual Conference, October 2011.
- Reminded adults of the impact that gambling problems can have on families through the CT Lottery's holiday campaign.
- Participated in the National Council on Problem Gambling and the International Centre for Youth Gambling Problems and High Risk Behaviors at McGill University - Holiday Campaign program, November through December 2011.
- Awarded the first "North American 2011 Holiday Campaign Award" by the National Council on Problem Gambling and McGill University for creating a special marketing campaign to educate consumers that lottery tickets are not a suitable gift for children under the age of 18 years of age.



CONNECTICUT LOTTERY CORPORATION Raising Revenue with Social Responsibility

- Actively supported and promoted "National Problem Gambling Awareness Week" from March 4 -10, 2012, by:
 - Running a "Gambling is Not Child's Play" message on digital billboards, on the XL Center marquee and in a print ad placed in the CT Parent Magazine's September, January and March issues.
 - Restricting product advertising from the radio and TV and ran PSAs in support of responsible gaming.
 - Providing Lottery retailers with information in a letter and flier about the Problem Gambling Helpline.
 - Playing a continuous "loop" of all CT Lottery responsible play Public Service Announcements spots in the lobby of the CT Lottery headquarters while making responsible play literature readily available.
- Broadcasting responsible play public service announcements throughout the year on radio and television.
- Received continued management training from the Camelot Operation, the UK National Lottery.
- Obtained Level 2 Accreditation from the World Lottery Association on May 22, 2012.

The CT Lottery's responsible gaming alliances include:

- CT Partnership for Responsible Gaming Awareness
- CT Woman's Problem Gambling Project
- CT Council on Problem Gambling
- CT Department of Mental Health & Addiction Services
- Connecticut Committee for Gambling Awareness

Supplier diversity is also an integral part of our corporate responsibly program. The CT Lottery is committed to helping support our small and local business partners. The CT Lottery was nominated as Corporation of the Year and the CT Lottery's Purchasing Director received the distinguished Buyer of the Year award.



National Problem Gambling Awareness Week Curb Sign



FINANCIAL SECTION



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REPORT OF INDEPENDENT AUDITORS

To the Directors

Connecticut Lottery Corporation

We have audited the accompanying basic financial statements of the Connecticut Lottery Corporation (the "Lottery"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Lottery's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended, in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Profit Margins by Game Type for the years ended June 30, 2012 and 2011 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United Stated by us. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

September 19, 2012

The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's financial performance for the fiscal years ended June 30, 2012 and 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to financial statements.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

The Lottery is a quasi-public corporation of the State of Connecticut (the State) created to generate revenues for the State's General Fund through the operation of a lottery. The Lottery activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

The financial statements include: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. The Statements of Net Assets provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Assets measure the transactions for the periods presented and the impact of those transactions on the resources of the Lottery. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as to operating, investing, capital financing and non-capital financing. Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

FINANCIAL HIGHLIGHTS OF FISCAL 2012

- Total net sales (operating revenue) were \$1.08 billion, an increase of \$65.1 million, or 6.4%, from fiscal 2011. This represents the second consecutive year operating revenue surpassed the billion dollar mark and is the highest sales level ever achieved.
- Transfers to the State's General Fund were \$310.0 million, an increase of \$20.7 million, or 7.2%, compared to the prior fiscal year, and also a new record for the Lottery.
- Annuities payable and related investments for prizes decreased due to fewer winners selecting long-term installment payment options and continued amortization of older annuities. Long-term annuities payable and long-term investments for prizes decreased \$18.8 million, or 14%.

REGIONAL GAME LAUNCH

In March of 2012, the six New England states joined together to launch a regional version of the Connecticut Lucky 4 Life game. The new regional game, Lucky for Life, includes the following states: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. The game offers an annuitized top prize of \$1,000 a day (\$7,000 weekly) for life. There was one claimed top prize winner from Connecticut and two claimed top prize winners from Massachusetts during the year ended June 30, 2012. Each lottery sells its game tickets through its retailers. The Multi-State Lottery Association, ("MUSL" – also see *Note 6, Participation in Multi-State Lottery Association*) collects the sales and prize data for each state and is responsible for transferring or receiving top prize liability funds. MUSL aggregates each drawing sales, prizes won, and allocations and balances of prize expenses and liabilities for each lottery

and provides each state with a prize settlement activity report. Expenses are shared on a pro-rata basis with all lotteries. Annually, the directors of the lotteries approve a budget for shared operating expenses. Expenses are allocated to each lottery in proportion to its percentage of Lucky for Life game sales.

CONDENSED FINANCIAL INFORMATION

Net Assets and Changes in Net Assets

Net assets represent the assets of the Lottery less the liabilities owed to third parties. The net assets are restricted for promotional purposes, augmenting prizes or increasing payments to the State's General Fund. Net assets increased \$47,000 or 0.6%, for fiscal 2012 and increased \$97,000 or 1.3%, for fiscal 2011. Listed in Table 1 on the following page is a summary of the key components of net assets. The Lottery transfers unrestricted net assets to the State's General Fund; therefore the change in net assets does not reflect the results of the Lottery's operating activities. Listed in Table 2 on page 31 is a summary of the key components of revenues, expenses and changes in net assets.

TABLE 1
Net Assets
(in thousands)

		Increase		Increase	
	2012	(Decrease)	2011	(Decrease)	2010
Current assets	\$ 92,403	\$ 19,564	\$ 72,839	\$ (6,071)	\$ 78,910
Investments and other non-current assets	121,230	(18,547)	139,777	(14,488)	154,265
Capital assets (net of accumulated depreciation)	2,111	(420)	2,531	(136)	2,667
Total assets	215,744	597	215,147	(20,695)	235,842
Current liabilities	91,489	19,373	72,116	(6,354)	78,470
Long-term liabilities	116,694	(18,823)	135,517	(14,437)	149,954
Total liabilities	208,183	550	207,633	(20,791)	228,424
Net assets					
Invested in capital assets	2,111	(420)	2,531	(136)	2,667
Restricted net assets	5,450	467	4,983	233	4,750
Total net assets	\$ 7,561	\$ 47	\$ 7,514	\$ 97	\$ 7,417

TABLE 2
Changes in Net Assets
(in thousands)

	,	Increase		Increase	
	2012	(Decrease)	2011	(Decrease)	2010
Total game sales, net	\$ 1,081,740	\$ 65,126	\$ 1,016,614	\$ 19,767	\$ 996,847
Other operating income	72	(6)	78	(95)	173
Nonoperating revenues:				(/	
Interest income	9,538	(1,559)	11,097	(1,774)	12,871
Other	6	1	5	2	3
Total revenues	1,091,356	63,562	1,027,794	17,900	1,009,894
Total cost of sales	748,073	44,846	703,227	14,884	688,343
Total operating expenses	21,831	(375)	22,206	1,650	20,556
Non-operating expenses:	0.505	(1.550)	11.06/	(4.700)	10.550
Interest expense	9,505	(1,559)	11,064	(1,709)	12,773
Total costs and expenses	779,409	42,912	736,497	14,825	721,672
Change in net assets before Payments to State Funds	311,947	20,650	291,297	3,075	288,222
Payments to Chronic Gamblers' Fund	1,900	_	1,900	_	1,900
Payments to State's General Fund	310,000	20,700	289,300	3,800	285,500
Change in net assets	47		97		822
Total net assets - beginning balance	7,514		7,417		6,595
Total net assets - ending balance	\$ 7,561		\$ 7,514		\$ 7,417

OVERVIEW OF FINANCIAL POSITION

Total assets remained essentially the same in fiscal 2012 and 2011 at \$215.7 million. Current assets, primarily cash and accounts receivable, rose \$19.6 million while noncurrent assets declined \$19.0 million. Noncurrent assets largely consist of investments for prize payments. Long-term liabilities consist primarily of annuities payable to lottery winners with prizes payable over several years. The reduction in the long-term asset account, Investment for prize payments, and in the long-term liability account, long-term annuities payable totaled \$18.8 million or 14%, in fiscal 2012 and \$14.5 million, or 9.7%, in fiscal 2011.

Beginning in 1997, winners could elect a lump sum payment instead of a long-term annuity. Since the lump sum option was offered, the trend among winners has been to elect the lump sum payment. The end result has been fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off.

The Lottery purchases annuity contracts from qualified life insurance companies in equal amounts and with the same maturities as the prizes payable to the lottery winners. As the annuity contracts mature, the insurance companies pay the Lottery, which in-turn pays the winners.

TABLE 3
Sales and Related Expenses
(in thousands)

		Increase (Decrease)				Increase (Decrease)						
	201	2		\$	%		2011		\$	%		2010
SALES												
Instant games	\$ 653	3,310	\$ 4	12,742	7.0%	\$	610,568	\$ 1	7,194	2.9%	5	593,374
Daily games	220	,060	((5,321)	(2.4%)	225,381	1	4,064	6.7%)	211,317
Multi-State games	114	í,909	2	21,444	22.9%)	93,465	((3,048)	(3.2%	5)	96,513
Lucky-4-Life	15	,465	((8,350)	(35.1%)	23,815	((6,883)	(22.4%	5)	30,698
Lucky for Life	11	,407	1	1,407	100.0%)	_		_	_	-	_
Classic Lotto	27	7,372		3,031	12.5%)	24,341	((5,563)	(18.6%	5)	29,904
Cash5	33	3,781		(462)	(1.3%)	34,243		(798)	(2.3%	5)	35,041
CT Super Draw	5	5,436		635	13.2%)	4,801		4,801	_	-	
Total sales	\$1,081	,740	\$ 6	55,126	6.4%	\$1	1,016,614	\$ 1	9,767	2.0%	5	\$996,847
RELATED EXPENSES												
Prize expense	\$ 659	,898	\$ 3	39,764	6.4%	\$	620,134	\$ 1	1,379	1.9%	5	608,755
Retailer commissions	\$ 60	,740	\$	3,776	6.6%	\$	56,964	\$	1,079	1.9%	5	55,885
On-line systems	\$,856	\$	566	6.1%	\$	9,290	\$	465	5.3%	5	8,825
Production expenses	\$ 7	7,053	\$	826	13.3%	\$	6,227	\$	857	16.0%	5	5,370

Total sales for fiscal 2012 increased by \$65.1 million, or 6.4%, from the prior fiscal year. Instant game sales, Powerball, Mega Millions, Classic Lotto and Lucky for Life game sales were the games with the largest increases during the fiscal year with offsets from decreases in the Daily game sales. Instant games increased by \$42.7 million, or 7.0%. The multi-state games of Powerball, Mega Millions and Lucky for Life increased a combined \$24.5 million, or 20.9%. In fiscal 2011, total sales increased by \$19.8 million, or 2.0%, from fiscal year 2010. The increase was primarily a result of increased Instant game and Daily game sales.

Most costs and expenses that comprise total cost of sales vary proportionally with the change in total sales. However, some variability does occur in certain periods due to the nature of these costs and expenses. Prize expense, retailer commissions, on-line systems, and production expenses are included in this classification.

Prize expense has the greatest impact on gross margin for the various games and has demonstrated the variability noted above and in prior financial statement reports. For fiscal 2012, prize expense increased \$39.8 million, or 6.4%, which is the same percentage increase in sales for the fiscal 2012. For fiscal 2011, prize expense increased \$11.4 million, or 1.9% which is comparable to the 2.0% increase in total sales.

Retailer commissions increased \$3.8 million, or 6.6%, in fiscal 2012 and increased \$1.1 million, or 1.9%, in fiscal 2011. Percentage changes in retailer commissions vary slightly from sales percentage changes, due to incremental incentive compensation earned by retailers for promotions offered by the Lottery to promote selected games.

On-line system expenses increased \$0.6 million, or 6.1% in fiscal 2012 and \$0.5 million, or 5.3% in fiscal 2011.

Production expenses increased by \$0.8 million, or 13.3% in fiscal 2012 and \$0.9 million, or 16.0% in fiscal 2011. Production expenses include: the production costs of Instant tickets, royalty fees associated with licensed games, studio costs for drawing broadcasts and courier costs to deliver the tickets to the retailers. In fiscal 2012, the cost of Instant ticket printing and freight as well as the first full year of the leasing of automated vending machines for Instant ticket sales accounted for the majority of the increase. In fiscal 2011, the Lottery introduced automated vending machines for instant ticket sales that accounted for a significant portion of the increase in production costs for the period.

Other costs and expenses do not vary directly with total sales. These include marketing, advertising and promotions expenses and operating expenses. Management budgets these items based upon current business plans and economic conditions and continuously monitors actual results to determine whether adjustments are required to meet overall business objectives. For fiscal 2012, marketing, advertising and promotions expenses decreased \$0.1 million while fiscal year 2011 increased \$1.1 million, or 11.6% as compared to fiscal 2010.

Total operating expenses for fiscal 2012 decreased \$0.4 million or 0.2% while fiscal 2011 increased by \$1.6 million, or 8.0%. Fiscal year 2011 included delayed salary and benefit increases and unusually high snow removal costs incurred during the winter of 2011.

Non-operating revenues and expenses are primarily comprised of interest income and expense related to the investment annuity contracts purchased to fund long-term prize payments.

Interest income from short-term investments of surplus cash remained essentially the same at \$33,000 in fiscal 2012 and decreased \$66,000, or 66.7%, in fiscal 2011 due to changes in average balances invested and changes in interest rates over the course of the two years. The changes in rate of return to the Lottery were consistent with the changes in the general market rates for this period.

The payments to the State's General Fund totaled \$310.0 million, and increased \$20.7 million, or 7.2% for fiscal 2012. For fiscal 2011, total payments were \$289.3 million, and increased \$3.8 million, or 1.3%. Payments to the General Fund reflect the net earnings of the Lottery that are transferred to the State's General Fund.

BUDGETARY COMPARISONS

The Lottery's management prepares an annual budget that is reviewed and approved by its Board of Directors. The budget reflects management's expectation for results of operations based upon market trends and business strategies employed by the Lottery to maximize the payments to the State's General Fund. As a quasi-public corporation, the Lottery's annual budget does not require legislative approval and is not part of the State's legislatively enacted budget.

CAPITAL ASSETS AND LONG-TERM DEBT

The Lottery leases office and warehouse facilities under long-term operating leases. Capital assets consist of leasehold improvements to facilities, computer equipment and office furniture and equipment. Capital assets are not a significant portion of Lottery's total assets.

The Lottery has financed capital asset acquisitions with proceeds from operations and has not used financing from long-term debt. The Lottery has no long-term liabilities other than the long-term annuities payable to lottery winners, deferred rent and long-term retirement benefits. For more detailed information on capital asset activity and long-term liabilities, please read the disclosures included in the notes to the financial statements.

CONNECTICUT LOTTERY CORPORATION Statements of Net Assets

	June 30		
	2012	2011	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 31,128,405	\$ 16,615,694	
Accounts receivable, net of allowance for doubtful accounts	34,248,815	23,639,829	
Prepaid annuities for prizes	21,516,664	26,172,068	
Accrued interest receivable	3,403,384	4,129,121	
Ticket inventory, net of allowance	1,962,929	1,867,586	
Due from the Multi-State Lottery Association	_	261,356	
Prepaid expenses	142,302	153,829	
Total current assets	92,402,499	72,839,483	
NONCURRENT ASSETS			
Investments for prize payments at present value	115,991,058	134,809,542	
Prize reserves held by Multi-State Lottery Association	5,039,411	4,767,674	
Capital assets, net	2,111,186	2,530,973	
Advances to high-tier claim centers	200,000	200,000	
Total noncurrent assets	123,341,655	142,308,189	
Total assets	\$ 215,744,154	\$ 215,147,672	

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	Jun	16 30
	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Annuities payable	\$ 22,204,473	\$ 26,888,185
Prizes payable	38,517,211	33,479,386
Accrued interest payable	3,403,384	4,129,121
Accounts payable and accrued expenses	25,444,031	6,817,533
Due to the Multi-State Lottery Association	1,266,907	_
Deferred revenue	653,338	801,947
Total current liabilities	91,489,344	72,116,172
LONG-TERM LIABILITIES		
Long-term annuities payable, at present value	115,991,058	134,809,542
Deferred rent	545,143	468,566
Long-term salaries and benefits payable	157,425	239,110
Total long-term liabilities	116,693,626	135,517,218
Total liabilities	208,182,970	207,633,390
NET ASSETS		
Invested in capital assets	2,111,186	2,530,973
Restricted	5,449,998	4,983,309
Total net assets	7,561,184	7,514,282
Total liabilities and net assets	\$ 215,744,154	\$ 215,147,672

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30		
	2012	2011	
SALES			
OPERATING REVENUE			
Instant game sales	\$ 653,311,182	\$ 610,570,601	
On-line game sales	316,505,530	315,860,382	
Multi-state game sales	114,937,406	93,493,452	
	1,084,754,118	1,019,924,435	
Less sales returns, cancellations and promotion	(3,014,052)	(3,310,422)	
Total operating revenue	1,081,740,066	1,016,614,013	
COST OF SALES AND OPERATING EXPENSES			
COST OF SALES			
Prize expense	659,897,816	620,133,591	
Retailer commissions	60,740,189	56,963,644	
On-line systems	9,856,375	9,290,390	
Marketing, advertising and promotions	10,526,074	10,611,709	
Production expenses	7,052,950	6,227,448	
Total cost of sales	748,073,404	703,226,782	
OPERATING EXPENSES			
Salaries and benefits	15,070,877	15,355,003	
Other operating expenses	3,460,467	3,425,619	
Depreciation and amortization	447,690	451,777	
Bad debt expense	(48,080)	100,400	
Department of Consumer Protection	2,900,229	2,873,242	
Total operating expenses	21,831,183	22,206,041	
OTHER OPERATING INCOME	71,899	78,121	
Operating income	\$ 311,907,378	\$ 291,259,311	

Years ended June 30

	2012	2011	
NONODED ATING DEVENILIES (EVDENISES)			
NONOPERATING REVENUES (EXPENSES)		4	
Interest income from investments on annuities	\$ 9,505,366	\$ 11,064,341	
Interest income	33,024	32,820	
Interest expense on annuity payments	(9,505,366)	(11,064,341)	
Annuity assignment	6,500	5,000	
Total nonoperating revenues	39,524	37,820	
CHANGE IN NET ASSETS AVAILABLE BEFORE PAYMENTS TO STATE FUNDS	311,946,902	291,297,131	
NON-OPERATING PAYMENTS TO STATE			
OF CONNECTICUT FUNDS			
To Chronic Gamblers' Fund	1,900,000	1,900,000	
To General Fund	310,000,000	289,300,000	
Change in net assets	46,902	97,131	
TOTAL NET ASSETS, beginning	7,514,282	7,417,151	
TOTAL NET ASSETS, ending	\$ 7,561,184	\$ 7,514,282	

See accompanying notes.

CONNECTICUT LOTTERY CORPORATION Statements of Cash Flows

Years ended June 30

	2012	2011
OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$1,071,030,552	\$1,015,647,277
Receipts from other operating income	71,899	62,917
Payments for prizes	(653,603,467)	(614,441,682)
Payments to retailers	(60,740,189)	(56,963,644)
Payments to suppliers	(8,892,718)	(32,690,802)
Payments to employees	(15,152,562)	(15,355,086)
Payments for other expenses	(6,284,118)	(6,222,282)
Net cash provided by operating activities	326,429,397	290,036,698
INVESTING ACTIVITIES		
Receipt of principal from annuities	26,662,548	30,952,931
Receipt of interest from annuities	10,231,103	12,108,169
Receipt of interest from cash equivalents	33,024	32,820
Purchase of insurance annuities	(2,113,600)	(11,026,541)
Net cash provided by investing activities	34,813,075	32,067,379
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(27,902)	(315,840)
Net cash used in capital financing activities	(27,902)	(315,840)
NONCAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	(26,690,856)	(31,165,570)
Payment of interest on long-term annuities payable	(10,231,103)	(12,108,169)
Annuity assignment	6,500	5,000
Payments to State's General Fund	(310,000,000)	(289,300,000)
Payments to Chronics Gamblers' Fund	(1,900,000)	(1,900,000)
Additions to long-term annuities payable	2,113,600	11,026,541
Net cash used in noncapital financing activities	(346,701,859)	(323,442,198)

Years ended June 30

		2012		2011
INCREASE (DECREASE) IN CASH				
AND CASH EQUIVALENTS	\$	14,512,711	\$	(1 (52 0(1)
AND CASH EQUIVALENTS	Φ	14,)12,/11	Ф	(1,653,961)
CASH AND CASH EQUIVALENTS, Beginning		16,615,694		18,269,655
CASH AND CASH EQUIVALENTS, Ending	\$	31,128,405	\$	16,615,694
RECONCILIATION OF OPERATING INCOME TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$	311,907,378	\$	291,259,311
Adjustments to reconcile operating income to net cash provided by operating activities:	·	- / //		. ,
Depreciation and amortization		447,690		451,777
Bad debt expense		(48,080)		100,400
Changes in operating assets and liabilities:				
Accounts receivable		(10,560,906)		(1,176,667)
Due from Multi-State Lottery Association		261,356		(261,356)
Accounts payable and accrued expenses		18,626,498		(7,197,573)
Ticket Inventory		(95,343)		664,980
Prepaid expenses		11,527		(43,866)
Prize reserves		(271,738)		(25,953)
Prizes payable		5,037,825		6,623,108
Due to Multi-State Lottery Association		1,266,907		(643,890)
Deferred revenue		(148,610)		209,931
Deferred rent liability		76,578		76,579
Deferred retiree salaries and benefits payable		(81,685)		(83)
1 .,		())		(***)
Net cash provided by operating activities	\$	326,429,397	\$	290,036,698

See accompanying notes.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Connecticut Lottery Corporation (the Lottery), a body politic and corporate, constituting a public instrumentality and political subdivision of the State of Connecticut (the State), was created by Public Act 96-212 on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery. The Lottery is governed by a thirteen member board with eleven directors appointed by the Governor and Legislature plus two ex-officio members, the State Treasurer and the Secretary of the Office of Policy and Management. The Lottery is administered by a President appointed by the Board of Directors.

For financial reporting purposes, the Lottery is considered a component unit of the State of Connecticut. Additional disclosures related to Connecticut's self insurance funds, unemployment insurance compensation, state pension plans, post employment benefits, and workers' compensation benefits are included in the State of Connecticut's Comprehensive Annual Financial Report.

These financial statements include all Lottery activity and do not include any activity related to any other state agency or fund.

B. Measurement Focus and Basis of Accounting

The accounting methods and procedures adopted by the Lottery conform to accounting principles generally accepted in the United States of America (GAAP) for governmental enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges (sales).

The Lottery's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, and liabilities, net assets, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded when the related liability is incurred.

In its accounting and financial reporting, the Lottery follows the pronouncements of the Government Accounting Standards Board ("GASB"). In addition, the Lottery follows the applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB.

C. Significant Accounting Policies

Cash and Cash Equivalents — The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities. Short-term investments of surplus cash are recorded at cost plus accrued interest, which approximate fair value. For purposes of reporting cash flows, cash and cash equivalents include all cash accounts, deposits with the State Treasurer's Short-Term Investment Fund (STIF), and investments with an original maturity of three months or less.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments for prize payments — Investments for prize payments are recorded based on the present value of an annuity contract at terms to yield a series of future payments required to meet the obligations of the Lottery for prize disbursements. Amounts recorded as prize expense reflect the cost of the annuity contracts necessary to satisfy both installment prize awards and single payment awards.

The Lottery purchases annuity contracts from insurance companies to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a series of payments over future periods. Annuity contracts are subject to credit risk. The Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required credit rating from one of three rating agencies which was effective in March, 2012. Prior to March, 2012 the standard was a minimum required credit rating from two of three rating agencies. Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

Accounts Receivable — Accounts receivable are reported at their gross amount, reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on an analysis of delinquent accounts which considers qualitative and quantitative conditions of the accounts.

Ticket Inventory — Instant game tickets are purchased from printing vendors. Unsold tickets are held in inventory and valued at the lower of cost or market using the specific identification method. Inventories are reported at their gross amount, reduced by the estimated portion that is provided for scrapped instant inventory tickets. The cost of tickets is recorded as cost of sales when the tickets are sold to the retailers. The cost of unissued tickets and returned tickets are written off at the end of each game.

Capital Assets — The capitalization threshold for the purchase of equipment and leasehold improvements is \$5,000. Capital assets are reported at cost and are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements 10 years
Computer Equipment 5 years
Furniture and Equipment 10 years

Prizes Payable — The prizes payable account represents the difference between the prize liability and the actual prizes redeemed. The Lottery honors winning lottery tickets for up to 180 days after the drawing in which the prizes are won for draw game prizes or the official end of game for instant game prizes. After 180 days, the liability is extinguished and the related income is added to net assets restricted for certain statutorily designated purposes.

Compensated Absences — Under the terms of its various union contracts, the Lottery employees are granted vacation in varying amounts based on the length of service. Certain employees may carry over a limited number of unused vacation days to subsequent years and, in the event of termination, these employees are reimbursed for accumulated vacation.

Under the terms of its various union contracts, Lottery employees are granted sick leave in varying amounts. Laid off employees may retain accrued sick leave provided they return to service on a permanent basis. An employee who has resigned from service in good standing and is re-employed within one year from resignation shall also retain sick leave accrued to their credit as of the effective date of their resignation.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition —

- *Instant game tickets* Packs of instant games are consigned to retail sales agents and revenue is recognized when the pack is sold.
- *Draw game tickets* Tickets for draw games are sold through electronic terminals at retail sales locations and revenue is recognized on the date of the drawing, with the exception of the CT Super Draw game. Revenue for CT Super Draw is recognized as tickets are sold by the retail agents.

Operating and Non-operating Revenues and Expenses — Operating revenues are primarily derived from sales of Lottery tickets. Operating expenses include the costs and expenses incurred in the sale of the Lottery's game offerings. Non-operating revenues are generally derived from interest earned on annuity contracts and operating cash balances. Non-operating expenses are primarily derived from interest expense from long-term annuity payments.

Prize Expense — Prize expense for instant games is recognized at the time of sale based on the predetermined prize structure for each game and is periodically adjusted to actual as known. Prize expense for draw games is recognized at the time of actual drawings with the exception of the CT Super Draw game. Prize expense for CT Super Draw is recognized based upon the actual relationship of the predetermined prize structure to the number of tickets sold in order to properly match revenues and expenses. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. Those differences, called unclaimed prizes, are recognized as a reduction of expense 181 days after the end of the instant game or drawing date, as appropriate (see Unclaimed Prizes). Powerball and Mega Millions prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 6).

Unclaimed Prizes — Prizes must be claimed within 180 days from the date of the official end of the game for instant games and date of the drawing for draw games. Any prizes not claimed within this period are classified as unclaimed. In accordance with Public Act 96-212, the Lottery may retain unclaimed prize funds as additional revenue for the State, for promotions used to increase sales, or to return to the participants in a manner designed to increase sales.

Prize Payments — Public Act 96-212 states a minimum of 45 percent of gross annual revenue must be paid as prizes. For both of the fiscal years ended June 30, 2012 and 2011, the prize expense amounted to 61.0% of lottery sales.

Marketing, Advertising and Promotion — The Lottery expenses the costs of marketing, advertising and promotion as incurred.

Payments to the State of Connecticut—The Lottery transfers funds to the State of Connecticut to pay for regulation, provide for the Chronic Gamblers' Fund and to contribute to the general revenues of the State.

Retailer Commissions — Commissions are generally computed as 5% of ticket sales plus 1% of tickets cashed. Retailers may earn additional compensation through product promotions offered by the Lottery.

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets — Restricted net assets represent amounts set aside by statute for future use to return to participants as increased prize pools, promotional programs or payment to the State's General Fund. Net assets invested in capital assets represent resources net of debt and accumulated depreciation invested in capital assets.

Use of Estimates in Preparation of Financial Statements — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been reflected to the prior year financial statements to conform to the current year's presentation.

NOTE 2 — CASH, CASH EQUIVALENTS AND CREDIT RISK

Cash and cash equivalents are as follows:

	June 30				
	2012	2011			
Cash in bank	\$ 8,974,523	\$ 1,003,188			
Cash in transit	45,648	24,664			
STIF	21,081,188	14,484,022			
STIF (Retailer-security deposits)	1,021,546	1,098,320			
Petty Cash	5,500	5,500			
Total cash and cash equivalents	\$ 31,128,405	\$ 16,615,694			

In accordance with Public Act 96-212 and Connecticut General Statutes (C.G.S.) Sections 3-20 and 3-27a, excess funds of the Lottery may be deposited with the treasurer in such fund or funds of the State as appropriate or at the direction of the treasurer in a commercial bank or trust company with or without security to the credit of such fund or funds, or may be invested by, or at the discretion of the treasurer in bonds or obligations of, or guaranteed by, the State or the United States, or paper, savings accounts and bank acceptances, in the obligations of any state of the United States or any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, in the obligations of any regional school district in this State or any metropolitan district in this State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, or in any fund in which a trustee may invest pursuant to C.G.S. Section 36-9w.

As of June 30, 2012 and 2011, the carrying amounts of the Lottery's deposits were \$8,974,523 and \$1,003,188, respectively. The bank balances as of June 30, 2012 and 2011 were \$9,954,176 and \$2,799,731, respectively, of which \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). The balances of these funds, \$9,704,176 and \$2,549,731, respectively, were uninsured and uncollateralized.

The Lottery's policy to control custodial credit risk related to uninsured deposits is to maintain accounts only with large commercial banks.

As of June 30, 2012 and 2011, the Lottery also had uninsured and uncollateralized investments of \$22,102,734 and \$15,582,342, respectively, in the State Treasurer's Short-Term Investment Fund (STIF). Cash invested in STIF is classified as pooled investments and, therefore, not categorized by risk type. Standard & Poor's rated the STIF as AAAm for the last three fiscal years.

The Lottery's daily bank investments and short-term STIF investments are invested in highly liquid, short-term assets that create no interest rate risk for the Lottery. The average maturity of the underlying assets within the STIF investments is 33 days. The Lottery's stated policy is to invest in highly liquid, short-term assets.

NOTE 3 — INVESTMENTS AND CREDIT RISK

Investments — The Lottery had the following investments as of:

	June 30, 2012				
	Carrying Amount	Fair Value			
Annuity contracts (at present value,					
discounted at approximately 6.0%)	\$ 137,507,722	\$ 137,507,722			
	June 30	, 2011			
	June 30 Carrying Amount	, 2011 Fair Value			
Annuity contracts (at present value,		-			

Credit Risk — The Lottery has uncollateralized annuities with the following institutions that represent more than five percent of the total as follows:

	Jι	June 30			
Institution	2012	2011			
Ohio National Life Insurance	\$ 44,377,515	\$ 43,835,728			
John Hancock Life Insurance	25,363,524	30,648,522			
New York Life Insurance	22,670,986	26,438,547			
Metropolitan Life	17,730,990	17,983,053			
Protective Life Insurance	9,048,775	11,027,268			

As of June 30, 2012 and 2011, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between A and A++.

All annuity contracts are purchased through a formal proposal process administered by the Lottery. Insurance company qualifications are reviewed by the Office of the State Insurance Commission.

Due to the matching of the terms of the annuity prize liabilities and the related long-term investments, no interest rate risk results from these long-term investments, and therefore, the Lottery maintains no stated policy regarding interest rate risk on long-term investments.

NOTE 4 — CAPITAL ASSETS

A summary of capital assets is presented below:

	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Asset Cost				
Balance, June 30, 2010	\$ 988,319	\$ 1,387,627	\$ 2,944,144	\$ 5,320,090
Capital Additions	15,254	245,722	54,864	315,840
Disposals		(147,434)	(59,560)	(206,994)
Balance, June 30, 2011	\$ 1,003,573	\$ 1,485,915	\$ 2,939,448	\$ 5,428,936
Capital Additions	27,902	_	_	27,902
Disposals		(26,535)		(26,535)
Balance, June 30, 2012	\$ 1,031,475	\$ 1,459,380	\$ 2,939,448	\$ 5,430,303
Accumulated Depreciation				
Balance, June 30, 2010	\$ (211,437)	\$ (1,010,245)	\$ (1,431,498)	\$(2,653,180)
Depreciation	(98,962)	(155,919)	(196,896)	(451,777)
Disposals		147,434	59,560	206,994
Balance, June 30, 2011	\$ (310,399)	\$ (1,018,730)	\$ (1,568,834)	\$(2,897,963)
Depreciation	(100,347)	(150,255)	(197,087)	(447,689)
Disposals		26,535		26,535
Balance, June 30, 2012	\$ (410,746)	\$ (1,142,450)	\$ (1,765,921)	\$(3,319,117)
Net Book Value	\$ 620,729	\$ 316,930	\$ 1,173,527	\$ 2,111,186

NOTE 5 — LONG-TERM OBLIGATIONS

Long-term payment requirements for annuities payable represent the largest class of long-term liabilities for the Lottery. Activity for the last two fiscal years is presented below.

	Beginning				Amounts due
	Balance	Additions	Reductions	Ending Balance	within one year
Activity for Fiscal 2012	\$ 161,697,727	\$ 3,188,660	\$ (26,690,857)	\$ 138,195,530	\$ 22,204,473
Activity for Fiscal 2011	\$ 180,513,116	\$ 11,026,541	\$ (29,841,930)	\$ 161,697,727	\$ 26,888,185

Presented below is a summary of long-term payment requirements for annuities payable to maturity:

Fiscal Years Ending June 30		Principal		Interest
2013	\$	22,204,473	\$	8,667,296
2014		16,971,546		7,187,637
2015		12,083,797		5,986,429
2016		9,052,967		5,149,470
2017		6,760,198		4,525,203
2018 - 2022		18,903,481		17,642,728
2023 - 2027		11,598,909		13,073,920
2028 - 2032		8,594,556		10,195,444
2033 - 2037		7,588,520		7,885,480
2038 - 2042		7,489,114		5,710,886
After 2042		16,947,969		9,234,261
	\$	138,195,530	\$	95,258,754

This debt represents periodic payments owed to lottery top prize winners and is fully funded by investments in annuity contracts. Amounts due after 2032 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 3 regarding investments, the annuity contracts used to fund periodic payments to top prize winners match the amounts and terms of the annuity prize liabilities. Therefore, no interest rate risk results from the long-term debt and the Lottery maintains no stated policy regarding interest rate risk on debt.

NOTE 6 — PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery is a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. During fiscal 2010, MUSL cross-licensed the Powerball game with a group of state lotteries that operate the Mega Millions game. Under the cross-license agreement, all state lotteries participating in MUSL and from the

NOTE 6 — PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION (continued)

group operating Mega Millions are permitted to sell both multi-state jackpot games. The Lottery participates in both the Powerball game and the Mega Millions game.

Each lottery that is a member of MUSL and participates in a multi-state game, sells game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize for each multi-state game. Lower tier prizes are paid directly to the winners by each member lottery. The prize pools for the multi-state games are based upon a percentage of each drawing period's sales with 50% collected by MUSL for Powerball and 51% collected for Mega Millions. MUSL retains a percentage of each drawing period's sales (Powerball percentage equals 2% and Mega Millions percentage equals 1%) as part of prize reserve funds until a designated cap has been accumulated. For the Powerball game, prize reserve funds of \$125,000,000 represent the cap. Currently, no prize reserve cap has been established for the Mega Millions game. After the total cap has been accumulated, the percentage of drawing period sales designated for the reserve funds becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds.

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over future installments. Powerball has 30 installments over 29 years and Mega Millions has 26 annual installments. If the winner selects the installment payments, MUSL purchases securities to fund the prize annuities for MUSL members or the Mega Millions group purchases securities if the prize winner(s) is from a Mega Millions state. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually with the initial payment being made in cash, to be followed by the remaining payments funded by the securities.

Effective with the Powerball draw on January 18, 2012, the price of a Powerball game ticket increased to \$2.00 from \$1.00.

During the year ended June 30, 2012, there was one Powerball grand prize winner in the State of Connecticut in the amount of \$254.2 million. There were no grand prize winners in the State of Connecticut for Powerball during the year ended June 30, 2011 and no grand prize winners of Mega Millions during the years ended June 30, 2012 or 2011.

As part of the agreement with MUSL, the Lottery is also required to deposit with MUSL additional amounts in the event the prize payout experience becomes greater than budgeted. These amounts are the property of the Lottery and would be returned in full in the event the Lottery exited the association. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year. Balances held by MUSL at June 30, 2012 and 2011 amounted to \$5,039,411 and \$4,767,674, respectively.

Investment income earned was \$5,077 and \$4,037, for the years ended June 30, 2012 and 2011, respectively. Balances due to MUSL at June 30, 2012 amounted to \$1,266,907 and balances due from MUSL at June 30, 2011 amounted to \$261,356.

NOTE 7 — PENSION PLAN

All employees of the Lottery participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. The Lottery has no liability for pension costs other than the required annual contribution. In addition, an actuarial study was performed on the plan as a whole and does not separate information for employees of the Lottery. Therefore, certain pension disclosures otherwise required pursuant to accounting principles generally accepted in the United States of America are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

Plan Description — SERS is a cost sharing multiple employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I, Tier IIA and Tier III are contributory plans and Tier II is a noncontributory plan. Tier I Plan B and Plan C participants contribute 2% and 5% of their pay, respectively. Tier II Plan A and Tier III participants contribute 2% of their pay. Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service, or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in the amount of 2% of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1% of \$4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to one and one-third percent of the average annual earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

Tier III covers employees first hired on or after July 1, 2011. Tier III employees who retire at, or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 58 with 10 years of service with reduced benefits are entitled to one and one-third percent of the average earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service.

All Tier I, Tier II, Tier IIA and Tier III members are vested after ten years of service, and each plan provides for death and disability benefits. The total payroll for employees of the Lottery covered by SERS for the years ended June 30, 2012, 2011 and 2010, was \$8,989,782, \$8,897,944 and \$8,220,109, respectively.

Contributions Made — The Lottery's contribution is determined by applying a State mandated percentage to eligible salaries and wages. The mandated rate was 39.41%, 40.00% and 39.85%, during fiscal years 2012, 2011 and 2010, respectively. The contributions made compared to covered payroll follows:

		Years ended June 3	30
	2012	2011	2010
Contributions made:			
By employees	\$ 127,748	\$ 121,559	\$ 103,431
Percent of current year covered payroll	1.42%	1.37%	1.26%
By the Lottery	\$ 3,651,160	\$ 3,692,084	\$ 3,270,910
Percent of current year covered payroll	40.61%	41.49%	39.79%

NOTE 8 — POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the State provides post employment health care and life insurance benefits in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all eligible employees who retire from the State, including employees of the Lottery.

Currently, 35 retirees meet those eligibility requirements. When employees retire, the State pays up to 100% of their health care insurance premium cost (including dependent's coverage) depending upon the plan. The State currently pays up to 20% of the cost for retiree dental insurance (including dependant's coverage) depending upon the plan. In addition, the State pays 100% of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$10,000; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of post employment health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

In accordance with the Revised SEBAC 2011 Agreement between the State of Connecticut and the State Employee' Bargaining Agent Coalition (SEBAC), all employees shall pay the 3% retiree health care insurance contribution for a period of ten (10) years or retirement, whichever is sooner. This includes employees already paying the 3%, employees hired on or after July 1, 2011 and employees who are not paying the 3% on June 30, 2013. In addition, participants of Tier III shall be required to have fifteen (15) years of actual State service to be eligible for retirement health insurance. Deferred vested retirees who are eligible for retiree health insurance shall be required to meet the rule of seventy-five (75), which is the combination of age and actual State service equaling seventy-five (75) in order to begin receiving retiree health insurance based on applicable SEBAC agreement.

During the year ended June 30, 2009, several employees elected to retire under a 2009 Retirement Incentive Program offered by the State of Connecticut effective July 1, 2009. The retirement plan allows for payment of accrued sick and vacation pay on a deferred basis that will be treated as additional state service for retirement purposes. The total deferred payments as of June 30, 2012 under the 2009 Retirement Incentive Program offered by the State of Connecticut were \$239,110 of which \$81,685 is current and \$157,425 is long-term. As of June 30, 2011, \$239,110 was recorded as long-term in the Statement of Net Assets. The total amount will be paid by the Lottery in equal annual installments on July 1, 2012, 2013, and 2014.

NOTE 9 — LEASE COMMITMENTS

The Lottery leases office and warehouse facilities under long-term operating leases. The warehouse lease allows for two renewal options of two years; and a third renewal option of five years for a total of nine years at the Lottery's option. The third renewal option for the warehouse was exercised in 2007 and extended the lease through July 31, 2012. Currently, these leases have been extended for one year through July 31, 2013.

NOTE 9 — LEASE COMMITMENTS (continued)

The Lottery relocated to a facility in Rocky Hill under an operating lease that commenced on April 1, 2008 and extends through June 30, 2023. The lease provided free rent from April 1, 2008 through June 30, 2008. Monthly rents will be approximately \$73,000 through June 30, 2013, \$83,000 through June 30, 2018, and \$87,000 through the end of the term. The Lottery recognizes the lease expense using the straight-line method over the term of the lease arrangement.

The Lottery leases equipment under non-cancellable operating leases expiring on various dates through June 2016. A new equipment lease agreement was entered into during fiscal 2011 with payments of approximately \$76,000 and a term of 36 months. All equipment lease obligations are payable in monthly installments.

Total rent expense for facilities and equipment was \$1,973,004 and \$1,745,475 for the fiscal years ended June 30, 2012 and 2011, respectively.

Future payments for the aforementioned leases are summarized as follows:

Fiscal Years	
Ending June 30	Amount
2013	\$ 1,829,367
2014	1,246,490
2015	1,017,583
2016	1,000,177
2017	994,375
Thereafter	6,197,500
	\$ 12,285,492

NOTE 10 — RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption due to disruption of data processing; unfaithful performance; errors and omissions; injuries to employees; and natural disasters. The Lottery purchases commercial insurance for property losses in excess of \$100,000; losses due to employee dishonesty in excess of \$1,000; errors and omissions, torts, injuries to employees, and business interruption due to disruptions of data processing.

Lottery employees participate in three State of Connecticut health plans. For one of these plans, the State is self-insured. This plan is administered by an outside vendor which is responsible for the processing and payment of claims. No separate measurement is made of claims incurred and paid for the Lottery employees. Information regarding the excess of claims incurred over the claims paid for the State as a whole may be found in the Comprehensive Annual Financial Report of the State of Connecticut.

Claims expenses and liabilities above amounts covered by insurance are reported when it is probable that a liability has been incurred at the date of the financial statements and the amount of that loss can be reasonably estimated, including

NOTE 10 — RISK MANAGEMENT (confinued)

an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

During each of the three years ended June 30, 2012, 2011 and 2010, there were no claims or settlements that have exceeded insurance coverage.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

The Lottery is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Lottery.



SUPPLEMENTAL SCHEDULES

CONNECTICUT LOTTERY CORPORATION Schedule of Profit Margins by Game Type, Year Ended June 30, 2012

PROFIT CONTRIBUTIONS (\$000's)					
	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 653,310	\$ 73,881	\$ 61,139	\$ 47,642	\$ 37,399
DIRECT COSTS					
Gross prize expense	451,714	34,670	31,101	22,470	14,646
Unclaimed prize credit	(7,023)	(574)	(626)	(284)	(306)
Use of unclaimed prize reserve	1	89	5	83	_
Net prize expense	444,692	34,185	30,480	22,269	14,340
Retailer commissions	37,568	4,036	3,289	2,605	1,990
On-line systems	5,961	675	559	435	342
Marketing, advertising and promotion	4,926	154	106	178	66
Production expenses	6,449	65	65	66	65
Total direct costs	499,596	39,115	34,499	25,553	16,803
GROSS PROFIT	\$ 153,714	\$ 34,766	\$ 26,640	\$ 22,089	\$ 20,596
PROFIT MARGIN (% OF NET SALES)					
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.1%	46.9%	50.9%	47.2%	39.2%
Unclaimed prize credit	(1.1%)	(0.8%)	(1.0%)	(0.6%)	(0.8%)
Use of unclaimed prize reserve	0.0%	0.1%	0.0%	0.2%	0.0%
Net prize expense	68.0%	46.2%	49.9%	46.8%	38.4%
Retailer commissions	5.8%	5.5%	5.4%	5.5%	5.3%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	0.8%	0.2%	0.2%	0.4%	0.2%
Production expenses	1.0%	0.1%	0.1%	0.1%	0.2%
Total direct costs	76.5%	52.9%	56.5%	53.7%	45.0%
GROSS PROFIT	23.5%	47.1%	43.5%	46.3%	55.0%

Classic Lotto	Cash5	Powerball	Mega Millions	Lucky for Life*	CT Super Draw	Total
\$ 27,372	\$ 33,781	\$ 74,281	\$ 40,628	\$ 26,871	\$ 5,436	\$ 1,081,740
14,485	18,238	37,150	20,515	16,269	2,776	664,034
(296)	(491)	(2,180)	(440)	(422)	(94)	(12,736)
1,999	_	_	_	6,423	_	8,600
16,188	17,747	34,970	20,075	22,270	2,682	659,898
1,473	1,866	4,006	2,087	1,518	302	60,740
250	309	675	354	245	51	9,856
130	57	1,334	807	1,714	1,054	10,526
63	63	115	37	65	_	7,053
18,104	20,042	41,100	23,360	25,812	4,089	748,073
\$ 9,268	\$ 13,739	\$ 33,181	\$ 17,268	\$ 1,059	\$ 1,347	\$ 333,667
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	54.0%	50.0%	50.5%	60.5%	51.1%	61.4%
(1.1%)	(1.5%)	(2.9%)	(1.1%)	(1.6%)	(1.7%)	(1.2%)
7.3%	0.0%	0.0%	0.0%	23.9%	0.0%	0.8%
59.1%	52.5%	47.1%	49.4%	82.8%	49.4%	61.0%
5.4%	5.5%	5.4%	5.1%	5.6%	5.6%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
0.5%	0.2%	1.8%	2.0%	6.4%	19.4%	1.0%
0.2%	0.2%	0.2%	0.1%	0.2%	0.0%	0.7%
66.1%	59.3%	55.4%	57.5%	95.9%	75.3%	69.2%
33.9%	40.7%	44.6%	42.5%	4.1%	24.7%	30.8%

^{*&}quot;Lucky for Life" includes both the CT-only Lucky-4-Life game which ended in March, 2012 and the Lucky for Life game which began in March, 2012.

CONNECTICUT LOTTERY CORPORATION Schedule of Profit Margins by Game Type, Year Ended June 30, 2011

PROFIT	CONTRIBUTIONS	(\$000's)
---------------	---------------	-----------

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 610,568	\$ 76,863	\$ 62,766	\$ 48,086	\$ 37,666
DIRECT COSTS					
Gross prize expense	421,213	42,552	30,142	24,218	20,630
Unclaimed prize credit	(5,703)	(715)	(734)	(306)	(283)
Use of unclaimed prize reserve	3	1	_	_	_
Net prize expense	415,513	41,838	29,408	23,912	20,347
Retailer commissions	35,051	4,273	3,376	2,654	2,049
On-line systems	5,585	701	573	438	349
Marketing, advertising and promotion	7,203	162	130	100	78
Production expenses	5,740	71	71	71	71
Total direct costs	469,092	47,045	35,558	27,175	22,894
GROSS PROFIT	\$ 141,476	\$ 29,818	\$ 29,208	\$ 20,911	\$ 14,772
PROFIT MARGIN (% OF NET SALES)					
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS					
Gross prize expense	69.0%	55.4%	48.0%	50.4%	54.8%
Unclaimed prize credit	(0.9%)	(0.9%)	(1.2%)	(0.6%)	(0.8%)
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%
Net prize expense	68.1%	54.4%	46.8%	49.8%	54.0%
Retailer commissions	5.7%	5.6%	5.4%	5.5%	5.4%
On-line systems	0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion	1.2%	0.2%	0.2%	0.2%	0.2%
Production expenses	0.9%	0.1%	0.1%	0.1%	0.2%
Total direct costs	76.8%	61.2%	53.4%	56.4%	60.7%
GROSS PROFIT	23.2%	38.8%	46.6%	43.6%	39.3%

Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-4-Life	CT Super Draw	Total
\$ 24,341	\$ 34,243	\$ 60,280	\$ 33,185	\$ 23,815	\$ 4,801	\$ 1,016,614
12,874	19,334	30,151	17,024	9,003	2,436	629,577
(327)	(540)	(1,230)	(335)	(487)	_	(10,660)
1,213	_		_	_	_	1,217
13,760	18,794	28,921	16,689	8,516	2,436	620,134
1,309	1,897	3,137	1,716	1,248	254	59,964
226	307	547	305	217	42	9,290
80	73	668	801	300	1,017	10,612
29	71	34	36	33	_	6,227
15,404	21,142	33,307	19,547	10,314	3,749	703,227
\$ 8,937	\$ 13,101	\$ 26,973	\$ 13,638	\$ 13,501	\$ 1,052	\$ 313,387
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
52.9%	56.5%	50.0%	51.3%	37.8%	50.7%	61.9%
(1.3%)	(1.6%)	(2.0%)	(1.0%)	(2.0%)	0.0%	(1.0%)
5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
56.6%	54.9%	48.0%	50.3%	35.8%	50.7%	61.0%
5.4%	5.5%	5.2%	5.2%	5.2%	5.3%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
0.3%	0.2%	1.1%	2.4%	1.3%	21.2%	1.0%
0.1%	0.2%	0.1%	0.1%	0.1%	0.0%	0.6%
63.3%	61.7%	55.3%	58.9%	43.3%	78.1%	69.1%
36.7%	38.3%	44.7%	41.1%	56.7%	21.9%	30.9%



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION Schedule of Revenues, Expenses and Changes in Net Assets Actual vs. Budget (\$000's), Year Ended June 30, 2012

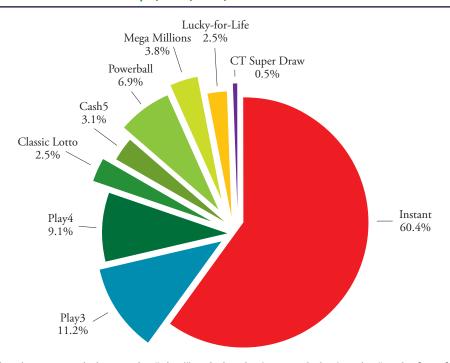
	Actual	Budget	Over/(Under) Budget	% Change
OPERATING REVENUE	\$ 1,084,754	\$ 1,026,000	\$ 58,754	5.7%
Less sales returns, cancellations and promotion	(3,014)	_	(3,014)	
Total operating revenue	1,081,740	1,026,000	55,740	5.4%
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	659,898	627,972	31,926	5.1%
Retailer commissions	60,740	57,714	3,026	5.2%
On-line systems	9,856	9,596	260	2.7%
Marketing, advertising and promotion	10,526	11,933	(1,407)	(11.8%)
Production expenses	7,053	6,517	536	8.2%
Total cost of sales	748,073	713,732	34,341	4.8%
OPERATING EXPENSES				
Salaries and benefits	15,071	16,023	(952)	(5.9%)
Other operating expenses	3,460	3,368	92	2.7%
Depreciation and amortization	448	478	(30)	(6.3%)
Bad debt expense	(48)	125	(173)	(138.4%)
Office of Policy & Management, regulatory purposes	2,900	2,902	(2)	(0.1%)
Total operating expenses	21,831	22,896	(1,065)	(4.7%)
OTHER OPERATING REVENUE	72	164	(93)	(56.7%)
Operating income	311,907	289,536	22,371	7.7%
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	9,505	_	9,505	
Interest income	33	47	(14)	(29.8%)
Interest expense on annuity payments	(9,505)	_	(9,505)	
Annuity assignment	7	3	4	
Total nonoperating revenues	40	50	(10)	(20.0%)
CHANGE IN NET ASSETS AVAILABLE				
BEFORE PAYMENTS TO STATE FUNDS	311,947	289,586	22,361	7.7%
Payments to State's General Fund	310,000	287,686	22,314	7.8%
Payments to Chronic Gamblers' Fund	1,900	1,900		
Change in net assets	\$ 47	\$ -	\$ 47	N/A

CONNECTICUT LOTTERY CORPORATION Schedule of Revenues, Expenses and Changes in Net Assets by Game Type (\$000's), Year Ended June 30, 2012

	Instant	Play3 Night	Play4 Night	Play3 Day
SALES	\$ 653,311	\$ 74,919	\$ 61,949	\$ 48,268
OPERATING REVENUE				
Less sales returns, cancellations and promotion	(1)	(1,038)	(810)	(626)
Total operating revenue	653,310	73,881	61,139	47,642
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	444,692	34,185	30,480	22,269
Retailer commissions	37,568	4,036	3,289	2,605
On-line systems	5,961	675	559	435
Marketing, advertising and promotion	4,926	154	106	178
Production expenses	6,449	65	65	66
Total cost of sales	499,596	39,115	34,499	25,553
OPERATING EXPENSES				
Salaries and benefits	8,453	527	641	527
Other operating expenses	1,886	120	145	120
Depreciation and amortization	252	16	19	16
Bad debt expense	(30)	(3)	(3)	(2)
Office of Policy & Management, regulatory purposes	1,725	194	159	125
Total operating expenses	12,286	854	961	786
OTHER OPERATING REVENUE	44	5	4	3
Operating income	141,472	33,917	25,683	21,306
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	4,366	_	_	_
Interest income	17	2	1	1
Interest expense on annuity payments	(4,366)	_	_	_
Annuity assignment	6	_	_	_
Total nonoperating revenues	23	2	1	1
CHANGE IN NET ASSETS AVAILABLE		,		
BEFORE PAYMENTS TO STATE FUNDS	141,495	33,919	25,684	21,307
Payments to State's General Fund	138,263	33,288	25,201	20,910
	1.160	122	110	0.5
Payments to Chronic Gamblers' Fund	1,168	133	110	85

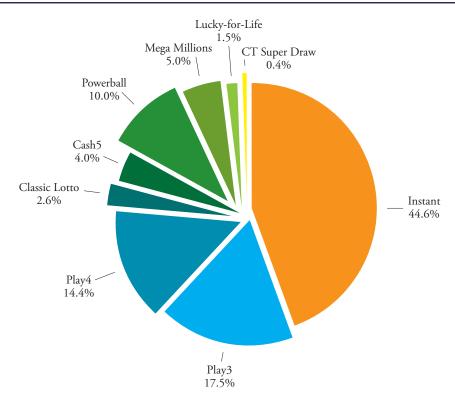
Play4 Day	Classic Lotto	Cash5	Powerball	Mega Millions	Lucky-for-Life*	CT Super Drav
\$ 37,858	\$ 27,392	\$ 33,804	\$ 74,300	\$ 40,638	\$ 26,879	\$ 5,436
(459)	(20)	(23)	(19)	(10)	(8)	_
37,399	27,372	33,781	74,281	40,628	26,871	5,436
14,340	16,188	17,747	34,970	20,075	22,270	2,682
1,990	1,473	1,866	4,006	2,087	1,518	302
342	250	309	675	354	245	51
66	130	57	1,334	807	1,714	1,054
65	63	63	115	37	65	_
16,803	18,104	20,042	41,100	23,360	25,812	4,089
C/1	701	716	000	000	701	2/
641	791	716	980	980	791	24
144	177	161	301	217	177	12
19	23	21	29	29	23	1
(2)	(1)	(1)	(2)	(2)	(1)	(1)
97	74	87	172	170	74	23
899	1,064	984	1,480	1,394	1,064	59
2	2	2	4	3	2	_
19,699	8,206	12,757	31,705	15,877	(3)	1,288
_	4,738	_	_	_	401	_
1	1,7 30	1	5	3	1	_
_	(4,738)	_	_	_	(401)	_
_	-	_	1	_	0	_
1	1	1	6	1	1	_
19,700	8,207	12,758	31,711	15,880	(2)	1,288
19,345	8,037	12,508	31,119	15,602	4,466	1,261
67	50	61	128	45	46	7
\$ 288	\$ 120	\$ 189	\$ 464	\$ 233	\$ (4,514)	\$ 20

^{* &}quot;Lucky for Life" includes both the CT-only Lucky 4 Life game which ended in March, 2012 and the Lucky for Life game which began in March, 2012.



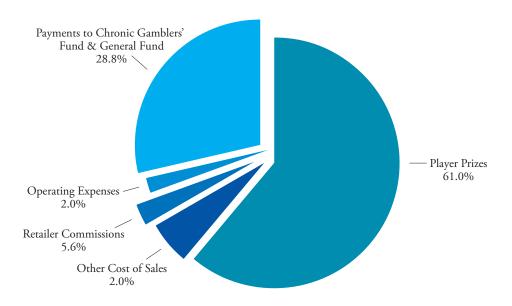
Note: "Play3" includes Play3 Day and Play3 Night; "Play4" includes Play4 Day and Play4 Night; "Lucky for Life" includes both the CT-only Lucky 4 Life game which ended in March, 2012 and the Lucky for Life game which began in March, 2012.

GENERAL FUND PAYMENTS BY GAME Fiscal Year 2012 Total Payments: \$310,000,000



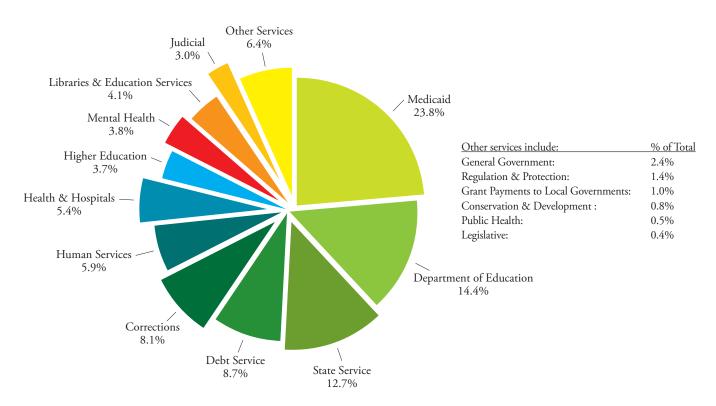
Note: "Play3" includes Play3 Day and Play3 Night; "Play4" includes Play4 Day and Play4 Night; "Lucky for Life" includes both the CT-only Lucky 4 Life game which ended in March, 2012 and the Lucky for Life game which began in March, 2012.

DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL REVENUE Fiscal Year 2012 Total Sales: \$1,081,740,066



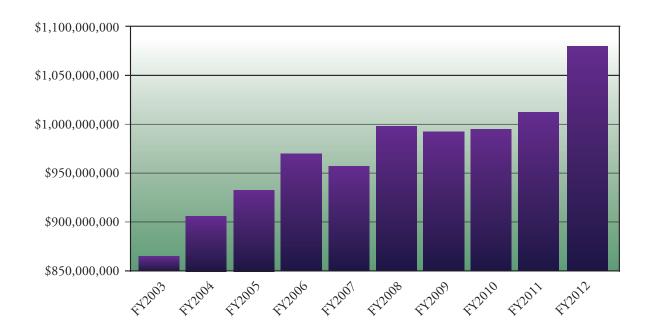
Note: Other Cost of Sales comprised of On-line sytems, Marketing, advertising and promotions and Production expenses

STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND Fiscal Year 2012 Payments to the General Fund: \$310,000,000

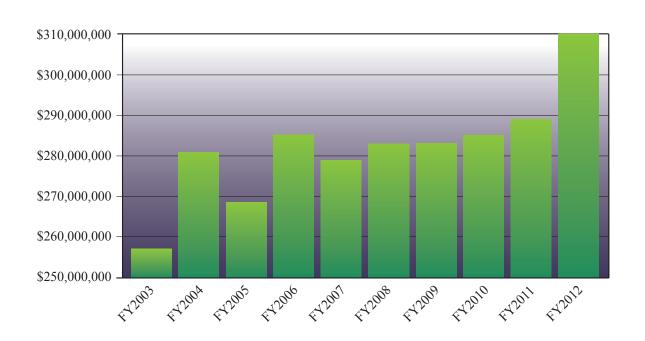


Based on Fiscal Year 2012 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2009-2011.

REVENUES FOR THE LAST 10 FISCAL YEARS



PAYMENTS TO THE GENERAL FUND FOR THE LAST 10 FISCAL YEARS



CONNECTICUT LOTTERY CORPORATION Schedule of Revenues by Game Type, Related Expenses and Payments to the General Fund (\$000's) For the Last 10 Fiscal Years

2003	2004	2005	2006
\$ 522,396	\$ 551,885	\$ 592,266	\$ 587,559
181,810	178,304	184,713	187,223
36,676	34,200	35,614	32,261
41,154	41,281	40,781	41,351
74,956	95,857	79,560	121,933
8,297	6,129	_	_
_	_	_	_
_	_	_	_
_	_	_	_
	_	_	
865,289	907,656	932,934	970,327
,			
523,900	538,331	573,000	587,388
48,360	50,499	51,691	54,051
22,712	23,014	23,627	26,213
594,972	611,844	648,318	667,652
\$ 256,815	\$ 280,763	\$ 268,515	\$ 284,865
	\$ 522,396 181,810 36,676 41,154 74,956 8,297 - - - 865,289 523,900 48,360 22,712 594,972	\$ 522,396 \$ 551,885 181,810 178,304 36,676 34,200 41,154 41,281 74,956 95,857 8,297 6,129 - 865,289 907,656 523,900 538,331 48,360 50,499 22,712 23,014 594,972 611,844	\$ 522,396 \$ 551,885 \$ 592,266 181,810 178,304 184,713 36,676 34,200 35,614 41,154 41,281 40,781 74,956 95,857 79,560 8,297 6,129 -

Notes:

⁽¹⁾ Numbers refers to Play3 Day, Play4 Day, Play3 Night, and Play4 Night.

⁽²⁾ Other Cost of Sales are comprised of On-line systems, Marketing, advertising and promotions and Production expenses.

2007	2008	2009	2010	2011	2012
\$ 594,930	\$ 618,970	\$ 610,013	\$ 593,374	\$ 610,568	\$ 653,310
197,587	207,618	206,343	211,317	225,381	220,061
30,386	32,201	32,942	29,904	24,341	27,372
41,371	41,159	40,420	35,041	34,243	33,781
92,752	98,200	92,134	85,282	60,280	74,281
_	_	_	_	_	_
_	_	_	11,231	33,185	40,628
_	_	9,451	30,698	23,815	15,464
_	_	_	_	_	11,407
	_	_	_	4,801	5,436
957,026	998,148	991,303	996,847	1,016,614	1,081,740
579,854	608,218	604,712	608,755	620,134	659,898
53,597	55,950	55,771	55,885	56,964	60,740
25,822	28,114	24,933	23,703	26,129	27,435
659,273	692,282	685,416	688,343	703,227	748,073
			<u> </u>		
\$ 279,000	\$ 283,000	\$ 283,000	\$ 285,500	\$ 289,300	\$ 310,000

CONNECTICUT LOTTERY CORPORATION Comparative Industry Statistics

Based upon data published in La Fleur's 2012 World Lottery Almanac, the Connecticut Lottery Corporation ranked highly in key statistics for measurement of operational performance. The data for the latest period available, fiscal 2011, included data from lotteries in 43 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below:

A. SALES PER CAPITA - FY 2011:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
State/ District	(Iviiiioiis)	(14111110113 ψ)	(Donars)
1 Massachusetts	6.6	\$ 4,416.3	\$ 670.40
2 D.C.	0.6	\$ 231.8	\$ 375.00
3 New York	19.5	\$ 6,758.7	\$ 347.22
4 Georgia	9.8	\$ 3,335.6	\$ 339.84
5 Maryland	5.8	\$ 1,817.5	\$ 311.85
6 New Jersey	8.8	\$ 2,636.5	\$ 298.88
7 Connecticut	3.6	\$ 1,016.6	\$ 283.91
8 Pennsylvania	12.7	\$ 3,207.9	\$ 251.74
9 Michigan	9.9	\$ 2,340.0	\$ 236.92
10 Ohio	11.5	\$ 2,601.0	\$ 225.29

B. NET INCOME PER CA	Net Income		
	Population	Net Income	Per Capita
State/District	(Millions)	(Millions \$)	(Dollars)
1 Massachusetts	6.6	\$ 887.9	\$ 134.78
2 New York	19.5	\$ 2,538.8	\$ 130.43
3 New Jersey	8.8	\$ 930.6	\$ 105.50
4 D.C.	0.6	\$ 62.2	\$ 100.65
5 Maryland	5.8	\$ 570.6	\$ 97.90
6 Georgia	9.8	\$ 839.1	\$ 85.49
7 Connecticut	3.6	\$ 291.3	\$ 81.35
8 Michigan	9.9	\$ 753.9	\$ 76.33
0 Pennsylvania	12.7	\$ 960.6	\$ 75.38
10 Ohio	11.5	\$ 720.9	\$ 62.44

C. OPERATING EXPENSES AS PERCENTAGE OF SALES - FY 2011:

		Operating		
	Ticket Sales	Expenses (1)		
State/District	(Millions \$)	(Millions \$)	Expense %	
	,			
1 Massachusetts	\$ 4,416.3	\$ 88.60	2.0%	
2 New Jersey	\$ 2,636.5	\$ 56.00	2.1%	
3 Florida	\$ 4,008.7	\$ 134.70	3.4%	
4 South Carolina	\$ 1,047.1	\$ 37.60	3.6%	
5 New York	\$ 6,758.7	\$ 247.00	3.7%	
6 Pennsylvania	\$ 3,207.9	\$ 126.10	3.9%	
7 Rhode Island	\$ 230.6	\$ 9.10	3.9%	
8 Ohio	\$ 2,601.0	\$ 109.30	4.2%	
9 Georgia	\$ 3,335.6	\$ 142.50	4.3%	
10 North Carolina	\$ 1,461.1	\$ 63.40	4.3%	
11 Michigan	\$ 2,340.0	\$ 103.30	4.4%	
12 Missouri	\$ 1,000.7	\$ 45.20	4.5%	
13 Connecticut	\$ 1,016.6	\$ 48.30	4.8%	
14 Texas	\$ 3,811.3	\$ 184.30	4.8%	
15 Virginia	\$ 1,482.7	\$ 74.90	5.1%	

⁽¹⁾ Operating Expenses include all costs of sales and operating expenses except prize and commission expenses. Connecticut expenses include on-line system expense, salary and fringes, production expense, marketing expense, regulatory expense, and other operating expenses.



COMPLIANCE SECTION



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS AND ON COMPLIANCE UNDER C.G.S. SECTION 1-122 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Directors, Chief Executive Officer and Chief Financial Officer Connecticut Lottery Corporation

We have audited the financial statements of the Connecticut Lottery Corporation (the "Lottery"), a component unit of the State of Connecticut, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with our audit, we have read the provisions of Connecticut Public Act No. 88-266 Section 41 (the Act) of the Connecticut General Assembly relating to quasi-public agencies (adopted January 1, 1989). The Act requires the Lottery to comply with regulations concerning affirmative action, personnel practice, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance.

Internal Control Over Financial Reporting

Management of the Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws including the Act, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, and Department of Consumer Protection, Gaming Division, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 19, 2012

Ernst + Young LLP

Connecticut Lottery Corporation

2012 Annual Report

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